



TFSA Investors: Where to Invest Your \$6,000 2020 TFSA Contribution Today

Description

Tax-Free Savings Accounts (TFSAs) remain one of the best vehicles to create long-term wealth and achieve your financial goals because of their tax-sheltered status. Essentially, all interest, dividends, and capital gains received from an investment held within a TFSA are tax-free for the life of investment and at the time of withdrawal.

By removing the corrosive effect of taxes on investment returns, it is possible to accelerate the pace at which wealth can be accumulated, allowing investors to achieve their financial goals sooner.

The magic of compounding

An often-overlooked strategy to utilize with a TFSA, because of their tax-sheltered status, is to invest for the long term in quality dividend-paying stocks with solid growth prospects and then reinvest those payments to access the [power of compounding](#). By unlocking the magic of compounding, it is possible to substantially enhance long-term investment returns and accelerate the pace at which wealth is created.

The ideal stocks are those with stable businesses and solid growth, which offer a dividend-reinvestment plan (DRIP), where additional stock can be purchased at no extra cost, removing transaction costs, which also impact returns.

The latest market correction, which sees the **S&P/TSX Composite Index** down by 6% over the last month, has created an ideal opportunity to acquire quality stocks at attractive valuations. One that stands out because of its unique mix of defensive characteristics and considerable growth potential is **Northwest Healthcare Properties REIT** ([TSX:NWH.UN](#)).

The REIT, regardless of recent market ructions, has gained 1% over the last month, despite growing fears of an economic slowdown. It invests in quality healthcare properties and pays a sustainable distribution yielding just over 6%.

The inelastic demand for healthcare combined with an aging population in the developed markets,

Canada, Germany, and Australia, where Northwest Healthcare operates, means that its earnings are virtually guaranteed. When that is coupled with the significant regulation of the medical industry and other steep barriers to entry, including considerable capital requirements, it endows Northwest Healthcare with a wide, almost unassailable economic moat.

For those reasons, the REIT is relatively resistant to economic downturns, and its earnings growth is essentially guaranteed, explaining why Northwest Healthcare's stock has been quite resilient, despite the difficult market environment.

When those characteristics are considered in conjunction with Northwest Healthcare's [solid growth prospects](#) and beta of 0.76, indicating that it is substantially less volatile than the market, it is the ideal stock to own in a TFSA to build wealth over the long term.

This is especially the case because of Northwest Healthcare's sustainable monthly distribution and distribution-reinvestment plan (DRIP), which allows unitholders to reinvest their distributions to acquire further units at no cost. That unlocks the power of compounding, enhancing investment returns and accelerating the pace at which wealth is created.

While past performance is no guarantee of future returns, Northwest Healthcare, if distributions were reinvested, has delivered 120% over the last decade, which is a compound annual growth rate (CAGR) of 8.3% compared to 6% if they were taken as cash.

There is every indication that as the economic outlook improves and coronavirus fears subside that Northwest Healthcare will continue to grow its earnings. In early 2019, it completed the needle-moving \$1.2 billion acquisition of 11 healthcare properties in Australia and recently announced a European joint venture as well as the purchase of a \$167 million, six-hospital U.K. property portfolio.

Foolish takeaway

TFSA's are one of the best ways to generate wealth over the long term, because they eliminate the impact of taxes on investment returns. Northwest Healthcare is an ideal addition to any investment portfolio held within a TFSA, because of its sustainable distribution, DRIP, low volatility, and solid growth prospects, making it an ideal investment for your annual \$6,000 TFSA contribution.

It is important to note, however, that diversifying across different companies from a variety of industries is an essential tool for managing investment risk.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:NWH.UN (NorthWest Healthcare Properties Real Estate Investment Trust)

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2. Msn
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